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DEPT PASS TO USTR CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
APRIL 21-25, 2008

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11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of April 21-25, 2008, including the following
items:

- INDIA SIGNS ON TO TAPI NATURAL GAS PIPELINE
- TREASURY U/S MCCORMICK DISCUSSES CLEAN TECHNOLOGY FUND
WITH POWER SECRETARY RAZDAN
- FDI HITS RECORD IN FEBRUARY
- GOVERNMENT MOVING ON FARMER DEBT WAIVERS
- GOI BLOCKS TATA BLACKBERRY SERVICE OVER SECURITY POLICY
- CHENNAI AIRPORT CLOCKS 59 PERCENT GROWTH
- BILLBOARDS COME DOWN ACROSS CHENNAI
- US AIRWAYS SEEKS CODE SHARE WITH INDIAN CARRIERS
- RAISING FDI CAP IN DEFENSE SECTOR

INDIA SIGNS ON TO TAPI
NATURAL GAS PIPELINE

12. (SBU) India's Ministry of Petroleum and Natural Gas (MPNG)
Minister Murli Deora attended the April 23-24 Steering Committee
meeting in Islamabad for the proposed
Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline,
at the invitation of the Asian Development Bank, Indian media
reported. On April 24, Minister Deora joined with petroleum
ministers of the other three countries in signing a "Gas Pipeline
Framework Agreement" which formally inducted India as a member for
the proposed US\$7.6 billion, 1,680-kilometer pipeline from
Turkmenistan's Dauletabad natural gas field.

13. (U) On the long-standing issue of whether Dauletabad has
adequate reserves, the Turkmenistan Government agreed to provide a
third party certification of gas reserves within five months. MPNG
Secretary Srinivasan said that India and Pakistan would discuss with

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Turkmenistan the issue of pricing the natural gas at the next Steering Committee meeting to be held in New Delhi later in 2008. Secretary Srinivasan at a joint press conference of the ministers

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said that implementation would begin in 2010, with the first commercial flows of gas projected for 2015. Press reports the 1,420-millimeter-width (56-inch) pipeline would have projected capacity of 100 million standard cubic meters per day (mmscmd) or 36.5 billion cubic meters a year (bcm/y), of which India's share might be 60 mmscmd or 21.9 bcm/y. The pipeline route would be through Herat and Kandahar in Afghanistan and through Quetta and Multan in Pakistan terminating at Fazilka in Punjab, India.

14. (SBU) (COMMENT: Lack of certification of recoverable commercial reserves from the Dauletabad field has been a stumbling block for the TAPI project and other such proposals for over five years. GOI officials are enthusiastic about TAPI, but they remain concerned about security for the leg through Afghanistan and they expect tough negotiations on security and transit payment issues with Pakistan. In Indian Fiscal Year 2005-06, India produced 32.2 bcm of natural gas and imported an equivalent of 9.7 bcm of natural gas in the form of liquefied natural gas. For the proposed Iran-Pakistan-India natural gas pipeline, Iran has offered India an initial volume of 11 bcm/y. END COMMENT).

TREASURY U/S MCCORMICK DISCUSSES
CLEAN TECHNOLOGY FUND WITH
POWER SECRETARY RAZDAN

15. (SBU) U.S. Department of Treasury Under Secretary for International Affairs, David McCormick met with Indian Ministry of Power Secretary Anil Razdan in New Delhi on April 24. U/S McCormick briefed Razdan on the USG's proposed Clean Technology Fund, which aims at providing US\$10 billion dollars -- of which the USA, Japan, and EU governments would contribute about \$5 billion -- and he invited India to consider participating both as a recipient and as a donor. The Fund would help developing countries fund purchase of

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advanced power-generation and other industrial technology, including renewable energy and energy efficiency technology, aimed at reducing growth in green house gas (GHG) emissions, while maintaining growth in energy-intensive sectors of the world economy.

16. (SBU) Secretary Razdan underscored that US\$10 billion worldwide is a small sum compared to the estimated \$500 billion India alone needs over the next 20 years to build the additional power generation infrastructure it needs. India's per capita electricity consumption is at 660 kilowatt-hours (kwh) or 1/20th that of developed countries and its GHG emissions per capita are 1/20th that of the United States, while 500 million Indians have no access to electricity. Thus, India must maintain sustained rapid growth in its consumption and production of electricity -- predominately through coal-fired thermal plants. He said India's policy is based on four "E's" of energy, environment, equity, and efficiency. Razdan called for U.S. investment in India to set up power engineering capacity based on India's lower labor costs, adding that China was emerging as very competitive in global markets, including in India's market, for power engineering equipment due to China's lower costs. Razdan noted the need for carbon dioxide sequestration and storage technology that would be safe and effective, but expressed concern about how long it would be before such technology is commercially viable. He underscored India's shortage of natural gas for its gas-fired thermal power generation capacity, and its problem of maintaining sufficient power output and frequency cycles at 50 Hz during the current peak temperature season to avoid power system transmission system damage. India's problems with managing power supply and demand leave it vulnerable to political instability and social unrest, Razdan added.

FDI HITS RECORD IN FEBRUARY

17. (U) Amidst continued financial market uncertainties and concerns over a slowdown in capital flows into India, the Commerce Ministry released the latest foreign direct investment (FDI) statistics, available for February 2008, showing record high FDI. Fresh equity in February hit \$5.6 billion, with an additional \$2.4 billion in re-invested earnings bringing the total for the month to \$8.34 billion, a record high, and equivalent to 12 months' total FDI inflow just two years ago. FDI for April-February (short just one month of the total fiscal year) also showed significant growth, up nearly 70% from the same time period a year ago to \$20 billion from \$11.9 billion. Besides the tax haven of Mauritius, through which many countries channel their investment, Singapore emerged as the single largest investor with \$1.7 billion from April to February. The UK and the US followed with \$1.2 billion and \$1.0 billion respectively.

GOVERNMENT MOVING ON
FARMER DEBT WAIVERS

18. (SBU) Ministry of Finance Joint Secretary (Banking) Amitabh Verma updated Econoff on April 24 on the government's efforts to implement the farmer debt waiver program, announced in the budget speech on February 29. Verma confirmed press reports that the central government would spread payments over four budgets, including the FY2007-08, which just ended. By July of this year, Verma explained, the government will have allocated Rs 100 billion (\$2.5 billion) from the FY07-08 budget and Rs 150 billion (\$3.75 billion) from the FY08-09 budget to a central fund to reimburse banks which forgive agricultural loans of small and marginal farmers. Verma's office is currently working with the central bank, the RBI, and the government-owned National Bank for Agriculture and Rural Development (NABARD) to finalize implementing guidelines for the banks. The guidelines will establish in detail which farmer loans are eligible and the process by which banks apply for reimbursement. Verma's side discussion with his staff during his meeting with Econoff regarding language to include in the

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implementing guidelines suggested that the process is well along. Comment: Even if the guidelines are released next week, that leaves banks just two months to waive all eligible loans to as many as 40 million farmers - a very tall order. Nonetheless, the Ministry of Finance appears to have moved quickly to implement the program and must still hope to reap the political benefits of such a massive undertaking. End comment.

GOI BLOCKS TATA BLACKBERRY
SERVICE OVER SECURITY POLICY

19. (U) The GOI has asked Tata Teleservices not to offer BlackBerry services unless a monitoring system insisted upon by GOI security agencies is put in place. A letter from the Department of Telecommunications (DOT) directed Tata not to provide BlackBerry services until the monitoring system is in place and a "master key and algorithm" are deposited. Tata Teleservices sought permission from DOT for launching its offering, saying other leading telecom operators have been offering services without meeting security requirements. DOT technical officials have held a series of meetings with BlackBerry manufacturer Research In Motion in order to find a solution so that service providers could continue offering premium BlackBerry services to an estimated 400,000 subscribers in India. Press reports quote sources as indicating that RIM may place a server in India so that the e-mail routed through BlackBerry could be intercepted, if required, by the security agencies. At present, servers used for routing content are located abroad.

CHENNAI AIRPORT CLOCKS
59 PERCENT GROWTH

110. (U) Chennai's airport experienced 59 percent passenger growth over the past year, Airport Director Dinesh Kumar told Consulate Chennai (and visiting Treasury Under Secretary David McCormick). The bulk of this growth, Kumar said, came from domestic travelers,

and he expects both domestic and international growth to continue, to include the expected arrival of the super jumbo Airbus 380 by September on Singapore Airlines' Chennai-Singapore route. He also said that the airport is in the midst of a major expansion, which will include a new terminal and second runway. Even with this expansion, however, Kumar said he expects that the airport will reach the limits of its capacity by 2015. He explained that aviation authorities are working on plans for a second airport for Chennai in the Sriperumbudur area, some 50 km west of the city, near the Chennai-Bangalore highway. Obtaining an appropriate land parcel is difficult, he said, adding that the project would likely be a public-private partnership along the lines of the new airports in Hyderabad and Bangalore.

BILLBOARDS COME DOWN
ACROSS CHENNAI

¶11. (U) Chennai's enormous and ubiquitous billboards came tumbling down following an April 9 decision of the Indian Supreme Court that upheld a Chennai High Court ruling requiring the removal of unauthorized billboards. (Judging by the number of billboards removed, practically all of the city's billboards were unauthorized, having been erected on public land or without the required permits.) City authorities swung into action immediately, removing thousands of the billboards' vinyl covers from their steel frames literally overnight. Work is now proceeding on demolishing the steel frames that held the billboards. An official from the mayor's office told Consulate Chennai, however, that it was difficult finding enough acetylene torches to cut apart the giant frames. Most of Chennai's residents seem to be enjoying the new views of the city and its many trees once hidden by the billboards. Consulate Chennai now reports a lovely view of a park across the street, hitherto obscured by pictures of 40-foot women hawking silk fashions.

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US AIRWAYS SEEKS CODE SHARE
WITH INDIAN CARRIERS

¶12. (U) On April 22, Embassy officials met with US Airways Director of Alliances Dennis Tierney to discuss the carrier's expansion plans in India. US Airways flies to 20 airports in Europe, primarily through Philadelphia, its gateway for European flights. By summer 2008, the airline hopes to have 25 virtual destinations in the Asia/Pacific region via code shares with Star Alliance members. Tierney is also hopeful they will sort out plans to offer non-stop service from Philadelphia to Beijing in March 2009. On this visit, Tierney plans to meet with both Air India and Jet Airways to discuss US Airways proposals to partner with either or both Indian carriers to allow code share flights via Europe. Tierney explained that while Air India has been invited to join Star Alliance as the 22nd member, this is not an exclusive contract and the alliance could invite other carriers to join later. Moreover, US Airways is neither barred from entering into a code share agreement with Air India before it becomes an official Star Alliance member (likely to occur in 2009) nor restricted to pursue code share agreements with other non-alliance members (like Jet Airways). He also noted that prior to Air India signing the agreement to join Star Alliance, the airline must have in place certain systems that parallel other alliance members like an established frequent flyer program, interline e-ticketing, ICAO safety audit certification, and integrated baggage check-in. In the short term, US Airways has no plans to offer service to India but is actively pursuing code share agreements to offer direct service (via Europe) to India. At present, they have a code share agreement with Lufthansa to offer direct service on flights from Delhi, Kolkatta, Bangalore and Chennai.

RAISING FDI CAP IN
DEFENSE SECTOR

¶13. (U) Defense Minister Antony notified Parliament on April 23 about plans to raise the 26 percent cap on FDI in the defense sector

to help facilitate co-development of multi-role transport aircraft by Hindustan Aeronautics as well as attract greater investment by defense and aerospace companies to India. Industry observers have also indicated that FDI in defense could eventually be raised to 49 percent. In a sector which has been traditionally dominated by state-run companies, the GOI is also eager to encourage domestic private sector participation, especially at a time when the defense budget has increased by 12 percent in FY07-08 to USD 24 billion. Companies like the Tata Group and Larsen & Toubro are negotiating with global defense firms on developing manufacturing units in India. Also, for example, in December 2007, Boeing and Hindustan Aeronautics announced plans to attract 1 billion in aerospace manufacturing work to India by 2017.

¶14. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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